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S E C R E T SECTION 01 OF 03 TEL AVIV 000723

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E.O. 12958: DECL: 02/04/2015

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SUBJECT: PERES PURSUES DIRECT TALKS ON GAZA DISENGAGEMENT
ECONOMIC ISSUES

Classified By: DCM Gene A. Cretz for reasons 1.4 (B) and (D)

1. (S) Summary: DPM Shimon Peres is moving quickly to initiate direct negotiations with the PA on Gaza Disengagement economic issues. Following the template established by the World Bank process, Peres met February 2 with Mohammed Dahlan and Sa'eb Erekat to set a path toward face to face negotiations on settler assets, border passages and industrial zones according to his advisor Einat Wilf. Wilf predicts that within the next two weeks the two sides will split into three subject matter committees with the GOI team relying on the NSC, COGAT and Ministry of Justice staff who have been coordinating with the World Bank. During his meeting with the PA and previous meetings held by Peres last week in Davos, where he pitched for U.S. and European private sector investment in the West Bank and Gaza and for support for a plan to establish a PA social welfare program, there were signs of renewed flexibility in GOI positions on Gaza disengagement issues especially on the disposition of settler assets and the preservation of hot houses and other settler agricultural businesses. End Summary

Movement on Direct Talks on Disengagement Issues:

2. (S) In a February 2 meeting with Econ Counselor and USAID Mission Director, Einat Wilf, special advisor to Deputy Prime Minister Peres, disclosed the discussions between Peres and the PA leading to movement towards direct negotiations on Gaza disengagement economic issues with the PA. In meetings with PA Finance Minister Fayyad at Davos and with Palestinian negotiator Saab Erekat and Mohammed Dahlan on February 2 in Jerusalem, Peres has begun a push toward direct negotiations and to interest both foreign country and private sector investment in the future of the post-disengagement Gaza economy. The result of the meetings with the PA includes plans for several more meetings to define terms of reference and then a split into working groups covering settler assets, passages and industrial estates. The GOI will be represented at the working group level by NSC, MOJ and COGAT staffs who have been working with the World Bank. (Comment: Ministry of Finance officials that had been working on passages and industrial estates seem to have been left out of this process, in part we surmise, because of Peres' cool relationship with Minister Netanyahu. End Comment) Ministry of Finance officials we have talked to have brushed off Peres' efforts, indicating the MOF along with the PM's office would ultimately play the more influential role. Wilf said that the GOI would seek assistance in the direct talks from the U.S. and the World Bank as circumstances dictate.

With Fayyad in Davos:
Transport Links and a Social Security Net

3. (S) In Davos, Peres met with PA Minister of Finance Fayyad and discussed the possible railroad link from Gaza to the port of Ashdod, but not curiously the link with the West Bank. According to Wilf, Fayyad endorsed the railroad link but only if the PA was assured that a seaport would also be built. On the issue of assets, Fayyad reportedly agreed to Peres' proposal that settlement homes be kept intact and that agricultural assets need to be maintained and transferred in whole to the PA. (Note: PA officials have told ConGen Jerusalem Offs that the PA's preference is for settlement homes to be removed by the GOI, including the rubble, before the assets are handed over. End note.) They also discussed the establishment of a Palestinian social safety net to help the PA compete with Hamas' successful social programs. Wilf said that Peres had also raised the idea of a social insurance plan in talks with the Norwegian Prime Minister who said Norway would take this under consideration. According to MOF's Rani Lobenstein, Fayyad has begun talks regarding the social insurance program with the resident IMF representative. While the issue has yet to be raised with USAID, Fayyad did discuss it with A/S Burns in their January 26 meeting (Jerusalem 332). Also at Davos, Peres met with a series of international company CEOs including HP, Radisson Hotels, Starwood Hotels and Cisco systems to encourage investment in a post-disengagement Gaza. Among the ideas he fielded were turning evacuated settler housing into tourist resorts and replicating the successful WEF sponsored Jordan

Education Initiative to raise the level of high-tech infrastructure. (Note: The PA has told ConGen Jerusalem Offs that its still-in-draft medium-term development plan includes a special focus on Gaza and the settlement assets. They say they are looking holistically at all of the assets to see how they can best be used to serve, over the long-term, the growing needs of the Gaza population. End note.)

Evolving GOI positions:

14. (S) Settler Assets:

Wilf said that there is a growing consensus among the GOI ministries to preserve settler housing. Earlier in the week, NSC advisor Gaby Blum told EconCouns that the NSC now believed that tearing down evacuated settler housing and carting away the rubble could not be accomplished within an accelerated timeframe for disengagement and that the cost would be prohibitive. Adoption of an idea to have a third party take possession of the houses and sell or to donate them to the PA has been under consideration. Wilf said that Peres was considering a plan that alters the original terms proposed for settler compensation of Gaza businesses. In the present plan, the GOI would pay compensation for only forty percent of the value of the businesses, that is for land and buildings only, leaving the owners with the right to sell machinery, infrastructure and goodwill and pocket the profits. Peres now believes that the GOI should buy these businesses outright so that the government takes on the responsibility for protecting the assets during the evacuation and in the hope that they could then sell them to the PA. (Note: This is an interesting proposal but one which would leave the PA with increased leverage and a possible windfall as the only possible buyer of the assets. End note) A separate proposal by the Aspen Institute, to buy the housing from the settlers and then donate it to the PA after disengagement, has been making the rounds according to Blum. USAID Mission Director has raised this issue with the PA underlining the importance of making decisions on the assets before the envelope for preserving them closes.

15. (S) Passages:

Clearly the issue of the border passages is utmost on the minds of the GOI, and Wilf and Blum confirmed that the agreement to purchase two Chinese scanners and upgrade the Karni crossing is underway. (Note: WB Country Director Nigel Roberts questioned the Chinese scanner Karni deal saying that the PA is likely paying too high a price for dubious quality and wondered why there would be an 18 month lag between placing the order and installing the scanners. End note.) Plans for a USD 140 million upgrade of five WB/Gaza passages has been agreed to with Fayyad according to Wilf, with the World Bank committing to help raise the PA half of the funding. (Note: While Nigel Roberts says that in his meeting with Peres he spoke in positive terms about the effort, no commitments to raise the funds for the PA were made. Roberts told USAID Director and ConGen EconChief February 4 that he would like to work with USAID on upgrading one passage in Gaza and one passage on the Green Line in the West Bank as part of a pilot program first. End note.) The present Israeli proposals separate the funding for the passages into two USD 70 million portions, half for technological improvements and an equal amount for infrastructure upgrades. However, Wilf agreed with the World Bank argument that managerial systems and standards of practice are of equal importance with hardware fixes, and need to be addressed in order to solve the present logjam of humanitarian and commercial goods into Gaza. Wilf indicated a significant change in the Israeli position on customs and security at the borders saying that the GOI would now seriously entertain the use of third parties to provide these functions. When the EconCouns and USAID Mission Director raised the problems encountered by PA officials, average Gazans and members of international humanitarian organizations passing through the Gaza crossings Wilf, though not fully briefed on the subject, said she would raise this as a priority issue to be addressed.

16. (S) Industrial Estates/Labor:

In his discussions in Davos, Peres has been urging a plan for individual countries to establish their own industrial parks in the WB/Gaza, and has urged the Wallenberg family to pursue a Swedish park. According to Blum, the East West Institute has approached the GOI with a plan to invest in the resuscitation of the Erez Industrial Estate. The NSC has told the Institute that the GOI will not supply funding for this purpose and urged them to go to the private sector for possible support. However, there is still no flexibility on the GOI position to ban Israelis from entry into Gaza after disengagement or on the limitations for Gazan laborers entering Israel, putting a significant obstacle to Industrial Estate development.

17. (S) Customs envelope and Rafah/Philadelphi:

According to Rani Lobenstein, he has raised the issue of the perpetuation of the customs envelope under the Paris Accords with Fayyad, who agreed that post-disengagement, the PA preferred to have the Israelis maintain the customs envelope due to a lack of technical expertise on the part of the PA. Lobenstein says he has consensus in the GOI for maintaining the customs envelope after an evacuation of the Philadelphi Strip if the Rafah crossing can be moved to Keren Shalom, at the point where the borders of Israel, Egypt and Gaza meet. This proposal has not been broached with the PA and in the past we have heard of objections to this plan from the Egyptians, who have invested significant funds to upgrade their side of the Rafah crossing.

Comment

18. (S) According to the NSC, Peres has the "green light" from the Prime Minister to pursue direct talks with the PA on the economic aspects of the disengagement. Blum commented that it is unlikely that Peres' discussions will avoid security issues. There are now signs of a new flexibility and a general re-thinking of GOI positions toward the disengagement issues laid out in the World Bank report. However, some of the relevance of proposed follow on steps proposed by the World Bank -- pilot programs for the passages, benchmarks and monitoring -- could soon be overtaken by events.

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